



News Release

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IRS Streamlines Application Process for New Tax-Exempt Organizations

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WASHINGTON — The Internal Revenue Service and the Treasury Department today issued new regulations that will streamline the approval process for organizations seeking tax-exempt status as publicly supported charities.

The new regulations do away with the so-called advance rulings that granted public charity status for an initial five-year period but required exempt organizations to demonstrate, after the initial period, that they in fact received a substantial part of their support from public sources to receive a final determination letter.

The IRS was able to eliminate the advance rulings process because of the recent redesign of the Form 990, the tax return filed by organizations exempt from federal income tax.

"The revised Form 990 enhances transparency for exempt organizations and makes it easier for them to show that they are 'publicly supported' charities, rather than private foundations," said IRS Commissioner Doug Shulman.

Private foundations under federal law are subject to more restrictions on the way they operate than publicly supported charities. To apply for exempt status either as a private foundation or as a publicly supported charity, an organization must file a Form 1023, the application for recognition of tax exemption.

Over the years, approximately 95 percent of exempt organizations that received advance rulings were later recognized as publicly supported charities at the end of the five-year period.

"Given the high 'recognition' rate and the redesigned Form 990, it makes sense to eliminate the burdensome advance ruling process" said Lois G. Lerner, Director of the IRS Exempt Organizations division. "Not only will the streamlined process aid exempt organizations, but it will also allow the IRS to redirect staffing to other program areas without compromising compliance."

The IRS will use the new Form 990 and other traditional techniques to continue to ensure organizations are complying with the rules for publicly supported charity status on an ongoing basis.

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Organizations that have already received an advance ruling under the old regime, but are still in their first five years of existence, can use their advance ruling letter as their final determination letter. In addition to the streamlined approval process, the new regulations include other modifications necessary to implement the redesigned Form 990. Organizations will begin filing the new Form 990 for their 2008 tax year.